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School District Early Warning Overview

March 18, 2015

Acronyms used in this presentation

DEP:	Deficit Elimination Plan
CEPI:	Center for Education Performance and Information (housed within Department of Technology, Management and Budget)
ISD:	Intermediate School District
MDE:	Michigan Department of Education
MPERS:	Michigan Public School Employees' Retirement System
PSA:	Public School Academy
PA 436:	Public Act 436 of 2012, the "Emergency Manager" act.
UIA:	Unemployment Insurance Agency (part of Department of Licensing and Regulatory Affairs)

Bills within this Package

- HB 4325 (Poleski): Requires Early Reporting of Budget Data
- HB 4326 (Poleski): Preliminary review to determine the existence of probable financial stress in school districts
- HB 4327 (Pscholka): Provide for enhanced deficit elimination plans.
- HB 4328 (Lyons): Require coordination in management of deficit elimination plans.
- HB 4329 (Somerville): Financial Emergency in the event of noncompliance with deficit elimination plans.
- HB 4330 (Kelly): Update references as a part of this package.
- HB 4331 (Jacobsen): Increase authorization for emergency loans from \$35MM to \$85 MM as to local units of government; from \$50 MM to \$100MM as to school districts.
- HB 4332 (Garcia): Update references to emergency loan authorization.

House Bill 4325
Requires Early Budgetary Assumption Reporting by Districts and PSAs

July 7th

District/PSA budget assumptions due to CEPI:

- Student Count
- Foundation Allowance
- Expenditures per Pupil

July 21st

CEPI transmits summary budgetary assumption reports to ISDs and Authorizing Bodies

July 28th

ISDs and Authorizing Bodies concur (or not) with budget assumptions and report back to CEPI

August 10th

CEPI prepares final budgetary assumption report for:

- ISDs or Authorizing Bodies
- State Treasurer
- State Supt.

August 20th

State Treasurer reviews final budgetary assumption reports; if does not concur with determination made by ISD or Authorizing Body – provides notice to school district/PSA with copy to ISD or Authorizing Body and State Supt.

August 25th

District/PSA post a notice on website (main page) stating the District/PSA has adopted a budget that relies upon unreasonable budgetary assumptions

Notice remains on website until next June 30th or adoption of an amended budget which are determined to be reasonable

House Bill 4325
Requires Early Budgetary Assumption Reporting by Districts and PSAs

Pre-Deficit

If district/PSA determines that conditions of financial stress, a deficit, or conditions indicating a potential financial emergency exist, they **shall** notify State Supt. and request technical assistance – Notice also given to ISD/Authorizing Body

MDE and Treasury to provide technical assistance

Periodic Financial Reporting

Periodic reporting is required if:

- State Treasurer or State Supt. determine that potential financial stress may exist within district/PSA, or
- that a deficit is likely to arise in the current or following 2 school fiscal years, or
- if district/PSA may be unable to meet their financial obligations based on a number of factors (noted on the next slide)

House Bill 4325
Factors that may require Periodic Financial Reporting

- 1. District/PSA fails to pay required obligations to:**
 - MPSERS
 - UIA
 - Treasury
 - Employees for payroll
 - Vendors for more than 90 days
- 2. Failure to comply with the Uniform Budget and Accounting Act (PA 2)**
- 3. Expending tax revenues for unauthorized purpose or failure to distribute tax revenue as required by law**
- 4. Decline in fund balance as a percentage of current expenditures by 5% or more over 3 consecutive years**
- 5. Increase in expenditures per pupil by 5% or more as compared to the prior fiscal year**
- 6. Decrease in pupil enrollment by 5% or more in a single year or by 15% over three consecutive years and the district/PSA did not reduce expenditures in a manner that addressed the decline in enrollment.**
- 7. The district/PSA school board requests a determination**
- 8. District has applied for an Emergency Loan**
- 9. Budget based on unreasonable assumptions**

Current Deficit Elimination Process ("DEP") with MDE

If district/PSA is unable to avoid deficit through technical assistance and periodic reporting – DEP process with MDE would begin

District/PSA incurs deficit

1. Final budget Amendment – June 30th
2. Completion of Audit – November 15th
3. MDE is notified which initiates the Deficit Elimination process

Deficit Elimination Plan

1. District/PSA submits School Board approved Deficit Elimination Plan to MDE.
2. MDE reviews Plan for reasonableness and approves or disapproves the Plan based on the ability of the district/PSA to implement it.

State Supt. has discretion regarding duration of the plan – typically 5 years has been the max with a few exceptions

Developing an approvable DEP may take multiple attempts and the time it takes to complete varies; however, MDE sets deadlines (typically 30 days) for each revision

Current Deficit Elimination Process with MDE

Local Control

The local School Board is responsible for ensuring implementation of the approved DEP and achieving the financial goals established by School Board

Revised DEP's

The local School Board is responsible for revising the DEP and obtaining MDE approval of the revised plan

Monthly Budgetary Control Reports

District/PSA submit monthly budgetary control reports to MDE to demonstrate compliance with approved DEP

MDE may withhold State School Aid for non-compliance or non-submittal of DEP

If district is unable to eliminate deficit through current DEP process, State Supt. may initiate PA 436; however, at that point the financial distress is dire and the district's deficit has grown significantly

House Bill 4327 Enhanced Deficit Elimination Plans

State Treasurer may require Enhanced Deficit Elimination Plan ("EDEP") at any time financial stress is evident

Pre-deficit/periodic reporting

Rapidly deteriorating financial conditions

Current DEP process with MDE

The goal of the EDEP is to allow the State Treasurer to intervene as necessary with districts experiencing financial stress before the deficit becomes unmanageable and PA 436 is necessary

Key Features of EDEPs

Assistance from the Department of Treasury and other State Departments/Agencies

1) Financial Recovery Agreement

- Essentially a contract with School Board to lay out how the deficit will be eliminated – functions like consent agreement under PA 436
- May include Financial and Operating Plan – similar to PA 436
- May require the district to retain consultants and/or hire business office staff

2) Education Plan

House Bill 4329
Enhanced Deficit Elimination Plans/Emergency Manager

Emergency Manager

If district does not comply with EDEP, State Treasurer may declare financial emergency and request the Governor appoint an Emergency Manager